PROVINCIAL AUDITOR
of Saskatchewan

April 30, 2013

The Honourable Dan D'Autremont
Speaker of the Legislative Assembly
Room 129, Legislative Building
Regina, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2013 Special Report – The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14.1 of *The Provincial Auditor Act*.

Respectfully submitted,

Bonnie Lysyk, MBA, CA
Provincial Auditor

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1500 Chateau Tower - 1920 Broad Street - Regina, Saskatchewan - S4P 3V2
t 306.787.6398 *f* 306.787.6383 *e* info@auditor.sk.ca
www.auditor.sk.ca

2013 Special Report
The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan

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Reflections

A primary objective of our Office in writing this report is to call on the provincial Government to modernize financial budgeting and reporting in Saskatchewan. I encourage all Members of the Legislative Assembly to work together to improve these key accountability tools.

Regarding financial budgeting, although the Government currently prepares a short Summary Budget, it needs to increase and improve the detail contained within it and then use this more complete Summary Budget as the primary tool for communicating its financial plans to the Members of the Assembly and the citizens of Saskatchewan.

The Government has continued to use the General Revenue Fund (GRF) Budget as its primary tool in communicating its fiscal plans. Because this budget includes only a part of the Government's financial activities and is prepared using accounting rules unique to Saskatchewan, the GRF Budget gives legislators and citizens an incomplete and inaccurate picture of the Government's fiscal plans.

Regarding financial reporting, Saskatchewan was one of the first provinces in Canada in 1992 to prepare Summary Financial Statements that include all Government operations. However, as of 2013, it will now be the last province in Canada to move to using those financial statements as the primary public reporting tool in communicating its fiscal results to its citizens.

An incomplete and misleading picture. The GRF Budget and the reported financial results can be managed to convey a desired fiscal picture. This is done in two main ways:

1. Controlling the timing and amount of money transferred to and from Crown corporations and other agencies

2. Using money reserved in the Growth and Financial Security Fund – more commonly known as the "rainy day" fund

In both of these cases, transfers are recorded as "revenues" in the current year's GRF Budget and reported financial results even though they are not really revenue for the Government – rather they are simply the movement of money from one government agency/fund to another.

Moreover, the amounts in the GRF Budget and GRF actual financial results are incomplete. Since 1995 when balanced budget legislation was originally passed, an estimated $2.9 billion in pension costs have been excluded from the calculation of the GRF's "balanced budgets." I do not believe that omitting such significant costs is what the average citizen has in mind when presented with the term "balanced budget." Almost all other provinces include all costs, such as pension costs, when determining whether their budget is balanced or not. However, this exclusion is permitted in Saskatchewan by *The Growth and Financial Security Act* in preparing the GRF Budget.

More than one budget and multiple bottom lines lead to confusion. The Provincial Budget is a key fiscal accountability and accounting tool for Government, but in Saskatchewan unlike other provinces, it includes two budgets. This practice begs the question – is issuing two different sets of budgets (future financial plans) to the citizens of Saskatchewan appropriate? The answer is no.

In the last few years, the amount the Government has referenced when publicly communicating Interim Budget Updates is a "Pre-Transfer Surplus" amount – essentially, it is the bottom line of the GRF without taking into account transfers between the GRF and the "rainy day" fund. In fact, it is not even the "bottom line" under "balanced budget" legislation (i.e., *The Growth and Financial Security Act)*. This makes the information provided to citizens confusing.

For the last four years, the Government reported three budgeted "bottom lines" each year. The use of multiple bottom lines is confusing to the public.

Financial Budget Plans

Source	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014
	($ in millions)			
Summary Budget	($622.7) annual deficit	$54.3 annual surplus	$14.8 annual surplus	$149.8 annual surplus
GRF Budget	$20 annual surplus	$382.5 annual surplus	$47.5 annual surplus	$32.4 annual surplus
GRF Budget	($174.2) pre-transfer deficit	$115.0 pre-transfer surplus	$95.0 pre-transfer surplus	$64.8 pre-transfer surplus

Source: Saskatchewan Provincial Budget-Budget Summary

More than one set of financial statements leads to confusion. The same practice relates to the Government's financial results. Is it appropriate to issue two sets of financial statements to the citizens of Saskatchewan and force citizens to decide which financial statements reflect the full and true fiscal results of the Government? Again, the answer is no. When the financial results are compared, there is even more complication and room for confusion, as is shown by comparing the actual results for the last three years:

Financial Results

Source	March 31, 2010	March 31, 2011	March 31, 2012
	($ in millions)		
Summary Financial Statements	($409.2) annual deficit	($13.3) annual deficit	($104.9) annual deficit
GRF Financial Statements	$424.5 annual surplus	$47.7 annual surplus	$352.3 annual surplus
GRF Financial Statements	$167.7 pre-transfer surplus	$95.3 pre-transfer surplus	$54.7 pre-transfer surplus

Source: *Province of Saskatchewan Public Accounts – Volume 1*

Modernizing budgeting and financial reporting. Focusing on the Summary Budget and Summary Financial Statements should be the Government's approach to presenting its finances, for the following reasons:

- There is considerable financial activity under the control of the Government that is not reflected in both the budget and the financial results for the GRF. For example, for the year ended March 31, 2012, 57% of expenses in the Summary Financial Statements were managed by funds and Crown agencies outside of the General Revenue Fund.

- It would provide a focus for broader debate in the Legislative Assembly on Government fiscal plans. A Summary Budget and Summary Financial Statements reflect the impact of the Government's decisions on 100% of the revenues and expenses it controls and can affect.

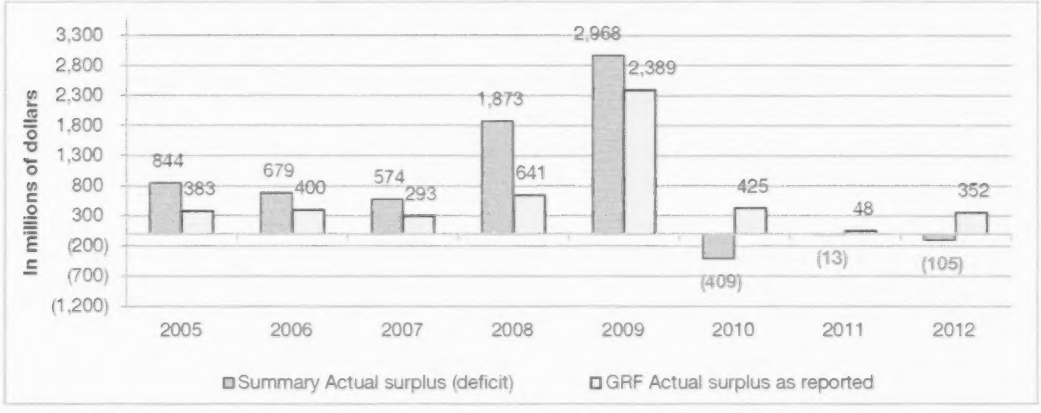
- There is a need to eliminate confusion within Saskatchewan about the Government's financial results. For the year ended March 31, 2010, Saskatchewan reported the largest Summary Financial Statement deficit incurred in the last eight years of $409.2 million. However, in that same year, it was publicly reported that the General Revenue Fund had a balanced budget and then had an actual surplus of $424.5 million.

- There is a need to eliminate confusion outside of Saskatchewan when comparing Saskatchewan's budgets and results to other Canadian jurisdictions. All other provinces and the Government of Canada report publicly to their citizens using their Summary Financial Statements. As noted in this report, recently both the C.D. Howe Institute and the Globe and Mail compared financial information from Saskatchewan's GRF to other provinces' Summary financial information.

- A complete Summary Budget aligned with the reporting used in the Summary Financial Statements would facilitate comparisons of budget to actual results, thereby furthering more informed debate.

- Unlike GRF financial statements, the Summary Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and present the complete financial results for the entire Government. The eight-year results for the Summary Financial Statements and the GRF financial statements are compared in the following chart:

Eight-year Comparison of Summary and GRF Actual Annual Surplus (Deficit) as Reported



Source: General Revenue Fund and Summary Financial Statements audited financial statements. 2005 is the first year the Government prepared a Summary Budget

- The public discussion on debt currently focuses on only a portion of provincial debt called the "government general debt." For the year ended March 31, 2012, this totalled $5.9 billion, and the 2013-14 Provincial Budget estimates that it will be $4.9 billion at March 31, 2014. Although the "government general debt" declined over the last five years, gross debt, including the amount owed for pension liabilities has increased by $0.4 billion from $17.0 billion at March 31, 2008 to $17.4 billion at March 31, 2012; and the 2013-14 Provincial Budget estimates that it will be $19.1 billion at March 31, 2014.

- Although the Government's public communication has been of balanced budgets every year using the GRF financial statements, Saskatchewan had annual deficits in each of the last three years.

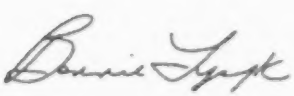
Clear financial budgeting and reporting is very important in order to hold a government accountable for its financial management. By the Government's continued focus on budgets and financial statements prepared using outdated and discredited practices that differ from other governments in Canada, both the Legislative Assembly and the citizens of Saskatchewan are hindered in their ability to hold the Saskatchewan Government of the day accountable for its management of public finances.

Also, as steward of the Government's finances, the Government has a duty to present its citizens with a complete picture when presenting the Provincial Budget and actual results compared to its plans. To present an incomplete and inaccurate picture to its citizens is confusing and poor practice.

Acknowledgements

I would like to thank the staff of our Public Accounts Team for their professionalism and their hard work that went into the material in this report. I appreciate their dedication and belief in the work of our Office.

As an Office, we remain focused on serving the Members of the Legislative Assembly and the people of Saskatchewan.



Bonnie Lysyk, MBA, CA
Provincial Auditor

1.0 Main Points

This report provides information about the Saskatchewan Government's financial budgeting and reporting practices. The presentation of two budgets and two audited financial statements is confusing for legislators and the public. The focus by Government on the General Revenue Fund (GRF) Budget and financial statements is "out of sync" with the rest of Canada and portrays an incomplete picture of the finances of the province. Other provinces present a complete picture by focusing on the Summary Budget and Summary Financial Statements.

In order to modernize budgeting and accounting practices in Saskatchewan, changes to *The Growth and Financial Security Act* and *The Financial Administration Act, 1993* are needed.

Current Saskatchewan legislation:

- Unlike the rest of Canada, requires the preparation of audited financial statements for both the GRF and the Summary Financial Statements and requires balancing the budget for the GRF Budget and not the Summary Budget
- Does not require the preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP) issued by the Canadian Public Sector Accounting Board
- Requires the use of accounting policies in the GRF that are not in accordance with GAAP
- Does not require quarterly Budget Updates for the Summary Financial Statements
- Includes a Debt Retirement Fund that serves no purpose

A complete Summary Budget also needs to be prepared on the same basis as the annual audited financial statements, along with quarterly Budget Updates focusing on the Summary Budget. As well, an improved discussion and analysis accompanying the audited Summary Financial Statements would provide legislators and the public with more meaningful analysis of differences between budget and actual and reasons for trends in key Summary Financial Statements items and financial indicators.

By focusing attention on the GRF Budget and audited financial statements, legislators and the public are being provided with unclear, inaccurate, and confusing financial information. Conversely, the Summary Financial Statements portray the complete and correct picture of how the Government plans for and manages the financial operations of the province.

There are 11 recommendations listed in **Section 6.0** of this report.

2.0 INTRODUCTION

Government budgeting and reporting of financial results is complicated. In Saskatchewan, it is even more complicated because there are two budgets and two sets of financial statements being prepared and communicated, in various forms, to legislators and the public.

The Saskatchewan Provincial Budget includes two budgets—one that reflects the financial plan for the entire Government (Summary Budget) and one that reflects the financial plan of only a part of the Government (GRF Budget). Also in Saskatchewan, the *Public Accounts – Volume 1* includes two sets of annual audited financial statements—those that reflect the financial results of the entire Government (Summary Financial Statements) and those that reflect the financial results of the General Revenue Fund (GRF financial statements). The audited GRF financial statements are qualified by the Provincial Auditor because they contain significant errors.

This is not a situation where more information is better. This is a situation that creates confusion and provides a distraction from focusing communications on one appropriate budget and one appropriate set of audited financial statements.

Over the years, Saskatchewan has enacted various legislation that governs the financial budgeting and reporting of the Government (see **Appendix 1**). Two key pieces of current legislation are *The Growth and Financial Security Act* and *The Financial Administration Act, 1993*.

In this report, we explain what information current Saskatchewan legislation requires the Government to prepare and provide to the Legislative Assembly. We explain how this legislation contributes to confusion about the Government's finances such as confusion about which budget is "balanced", what the actual results are, and how much debt the Government actually has. We also highlight Saskatchewan's inconsistencies from other provinces in legislative requirements regarding budgeting and the reporting of financial results.

Additionally, we point out how the financial plans and results of the Summary Financial Statements portray a very different financial picture than the plans and financial results of the General Revenue Fund.

3.0 Background—Government Financial Budgeting and Reporting

3.1 Government Reporting Entity

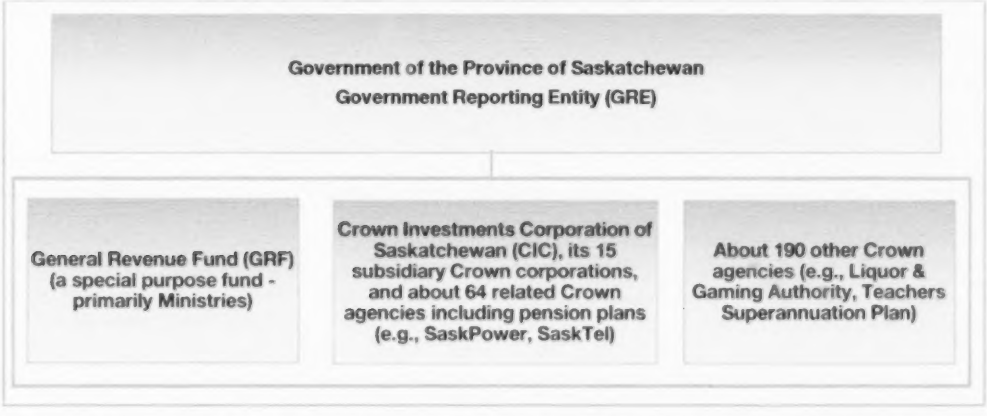
The Government of Saskatchewan is comprised of about 270 different agencies of varying sizes with varying purposes (see **Chart 1**). This is referred to as the Government Reporting Entity (GRE). The Government controls and is charged with the management and administration of all agencies within the GRE. **Chart 1** outlines funds and agencies that are controlled by the Government.

Financial reports are the means by which the Government reports on its stewardship of public money to the Legislative Assembly and to the people of Saskatchewan. Governments communicate their financial plans and results in their provincial budgets, Budget Updates, and in their public accounts.

The Summary Budget and the Summary Financial Statements reflect financial plans and results for the entire operations of Government.

In 1992, Saskatchewan issued its first set of audited Summary Financial Statements that consolidated the financial results of the entire Government for the year ended March 31, 1992. It prepared and issued its first consolidated Summary Budget in 2005, as part of the Provincial Budget.

Chart 1—The Components of the Government of Saskatchewan

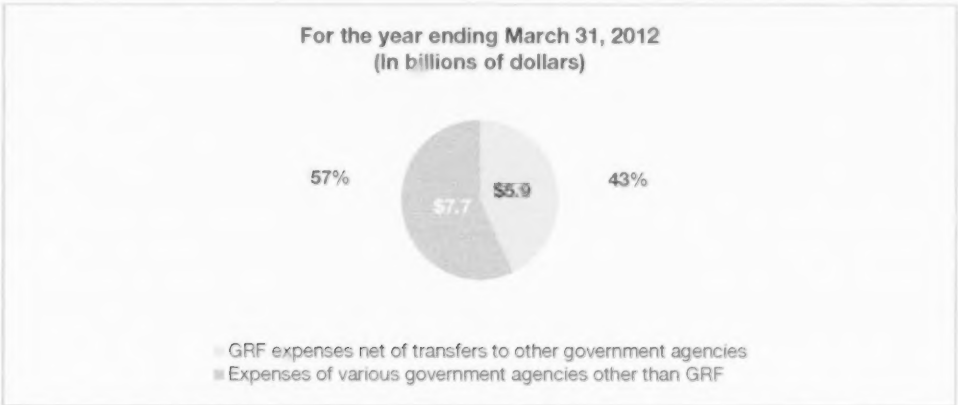

Government of the Province of Saskatchewan
Government Reporting Entity (GRE)
General Revenue Fund (GRF) (a special purpose fund - primarily Ministries)
Crown Investments Corporation of Saskatchewan (CIC), its 15 subsidiary Crown corporations, and about 64 related Crown agencies including pension plans (e.g., SaskPower, SaskTel)
About 190 other Crown agencies (e.g., Liquor & Gaming Authority, Teachers Superannuation Plan)

As noted in **Chart 1**, the General Revenue Fund (GRF) is only one component of the Government's operations. The GRF does not and is not designed to provide an accounting for the full nature and extent of the financial activities of the entire Government. As such, the GRF does not present a complete picture of the financial plans and results of the Government.

3.2 Significant Service Delivered Outside of the GRF

The Government manages and delivers a significant portion of its services through Crown agencies other than the GRF (e.g., crop insurance, regional health authorities, school divisions). As shown in **Figure 1**, in 2011-12, 57% of the Summary Financial Statements expenses are related to services delivered by government-controlled crown agencies other than those delivered by ministries (within the GRF).

Figure 1—GRF Net Expenses as a Portion of the Expenses of the Summary Financial Statements


For the year ending March 31, 2012
(In billions of dollars)
57%
$7.7
$5.9
43%
GRF expenses net of transfers to other government agencies
Expenses of various government agencies other than GRF

Source: Determined from Total Expenses in 2011-12 Summary Financial Statements and GRF total transfers to related parties in 2011-12 General Revenue Fund financial statements (note 8)

3.3 Key Legislation

Over the years, Saskatchewan has enacted various legislation that governs the financial budgeting and reporting of the Government (see **Appendix 1**). Two key pieces of legislation are *The Growth and Financial Security Act* and *The Financial Administration Act, 1993.*

3.3.1 *The Growth and Financial Security Act* (the Act)

The Growth and Financial Security Act addresses the preparation of a GRF Budget and debt management plan, balancing of the GRF, the creation of a "rainy day" fund and a debt retirement fund, and the requirement for an interim Budget Update.

GRF Budget

The Act requires the Government to annually prepare a four-year financial plan for the GRF at the same time as it presents the Estimates to the Legislative Assembly.

Balancing the GRF

"Balanced budget" legislation refers to laws that prohibit or limit budgetary deficits and are generally intended to promote fiscal restraint. A "balanced" budget means that planned spending for a fiscal period or periods is equal to or less than planned revenue for the same period(s).

Since 1995, Saskatchewan legislation **(Appendix 1)** has required the Government to make public, as part of its financial plan, a "balanced budget" for the GRF (GRF Budget). Since 2008, balanced budget legislation is incorporated within *The Growth and Financial Security Act.*

The Act requires that the GRF Budget use the same accounting policies as used in the GRF financial statements. The Act requires that the total expenses for the GRF in each fiscal year must be equal to or less than the total GRF revenues for the same fiscal year (for both planned and actual amounts). The Act provides certain exceptions to this requirement to "balance" for extraordinary events (e.g., natural disasters, wars, etc.).

Growth and Financial Security Fund–"Rainy Day" Fund

Since 2000, Saskatchewan legislation has established "rainy day" funds. In 2008, the Act established the "Growth and Financial Security Fund" (Fund) to replace previous "rainy day" funds. As per the Act, the purpose of this Fund is to provide long-term financial security for the Government and to provide a source of funds for promoting economic development.

The Act requires the Minister of Finance to transfer 50% of any GRF pre-transfer surplus into this Fund. Treasury Board (a subcommittee of Cabinet) has the power to make additional transfers to the "rainy day" fund and to approve transfers from the Fund. Any earnings (interest) on the investments of the Fund are deposited in the GRF.

All transfers between the GRF and the Fund are required to be recorded as revenues or expenses of the GRF. As such, the Act sets the non-GAAP accounting treatment for these transfers.

The Act requires reporting of the Fund in the Public Accounts.

GRF Debt Management Plan

The Act requires the Government to annually prepare a four-year debt management plan for the GRF at the same time as it presents the Estimates to the Legislative Assembly.

Debt Retirement Fund

The Act establishes a "Debt Retirement Fund" which requires the Minister of Finance to allocate 50% of any GRF pre-transfer surplus to this Fund. If the actual GRF surplus for a fiscal year is greater than the 50% allocation, the entire surplus is allocated. As per the Act, the purpose of the fund is to assist in achieving the long-term objective of the Government of Saskatchewan of eliminating the accumulated deficit of the GRF.

The Act requires reporting of the Debt Retirement Fund in the Public Accounts.

Interim Budget Update

Since 1995, Saskatchewan legislation requires the Government to publish an interim Budget Update on the GRF.

The Act expects the Government to issue an interim report on the GRF Budget (Budget Update) to the Legislative Assembly by November 30th of each year. The Budget Update

must contain revised forecasts of GRF revenues and expenses and highlight the differences between the revised GRF forecasts and the original budgeted amounts.

3.3.2 *The Financial Administration Act, 1993*

The Financial Administration Act, 1993 addresses the preparation and audit of Summary Financial Statements and GRF financial statements, and gives Treasury Board authority to set accounting policies and the form and content of the Estimates.

Requirement for Two Sets of Financial Statements

The Public Accounts of Saskatchewan are key accountability reports required by *The Financial Administration Act, 1993*. Saskatchewan publishes its Public Accounts in two volumes called Volume 1 (Main Financial Statements) and Volume 2 (Details of Revenue and Expenses) and in a Compendium of financial statements from individual agencies.

The Financial Administration Act, 1993 requires the *Public Accounts – Volume 1* to include two sets of annual audited financial statements—those of the Government of the Province of Saskatchewan (commonly referred to as the **Summary Financial Statements**) and those of the **General Revenue Fund**.

- **Summary Financial Statements** – The Summary Financial Statements report the consolidated financial results of all the controlled entities for which the Government is responsible (the GRE). The Summary Financial Statements provide complete audited financial information about the Government's financial results.

- **General Revenue Fund (GRF)** – The GRF is a special purpose fund that primarily accounts for the spending of ministries and for revenues not directed by legislation to go elsewhere. The GRF statements compare spending of ministries to that authorized by the Appropriation Acts[1] and other statutory spending authorities (Estimates). These statements provide information on spending of ministries and revenues (primarily from taxes, non-renewable resources transfers from Saskatchewan Crown agencies, transfers from the "rainy day" fund, and transfers from the Federal Government).

Power to Set Accounting Policies

The Financial Administration Act, 1993 gives Treasury Board the power to set the accounting policies used to prepare the Summary Financial Statements and GRF financial statements. Currently, Treasury Board requires the use of Canadian Generally Accepted Accounting Principles (GAAP) to prepare the Summary Financial Statements but has decided **not** to use GAAP to prepare the GRF financial statements.

A standard setting body independent of governments (the Canadian Public Sector Accounting Board) sets GAAP using due process with the oversight of the Canadian Accounting Standards Oversight Council. Use of independent financial reporting standards enhances the credibility of the financial information produced by a government, which in turn fosters confidence in the quality of financial decision making.

[1] *The Appropriation Act* – is the legal authorization to spend money from the GRF for the purposes and time period identified in the Act and Estimates.

The Estimates

The Financial Administration Act, 1993 gives Treasury Board the power to prescribe the form and content of the annual Estimates.[2] Estimates reflect a government's spending and borrowing for which it must obtain the approval of the Legislative Assembly before it can spend.

[2] Various acts give the Government ongoing spending authority. For these amounts, the Government is not required to seek annual legislative authority through Appropriation Acts. For example, *The Financial Administration Act, 1993* gives the Ministry of Finance the ongoing authority to pay debt servicing costs (e.g., interest, fees, and commissions). These amounts are called statutory appropriations.

4.0 Outdated Legislated Requirements

In this section, we highlight aspects of *The Growth and Financial Security Act* and *The Financial Administration Act, 1993* that require modernization. In preparation for change, the Government will need to revisit its existing practices for budgeting and reporting financial information.

4.1 GRF Budget

4.1.1 Only Province Preparing GRF Budget

Saskatchewan is the only province where the legislation requires it to present a budget for the General Revenue Fund. While other provinces present Estimates to their Assemblies, they do not provide a budget for their equivalent to the General Revenue Fund (i.e., a GRF Budget). Most other provinces are required, by legislation, to prepare only a Summary Budget (i.e., a budget that includes all of the Government's financial activities) (See **Appendix 5**).

Saskatchewan focuses on a GRF Budget even though it also prepares a Summary Budget.[3]

4.1.2 Two Budgets Cause Confusion

Saskatchewan is the only province with a Provincial Budget containing two budgets. Having two budgets makes understanding the Government's financial plans difficult. **Figure 2** illustrates the various annual surpluses (deficits) included in Saskatchewan's Provincial Budget.

Figure 2—Annual Surplus (Deficit) by Budget

Source	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014
	($ in millions)			
Summary Budget	($622.7) annual deficit	$54.3 annual surplus	$14.8 annual surplus	$149.8 annual surplus
GRF Budget	$20 annual surplus	$382.5 annual surplus	$47.5 annual surplus	$32.4 annual surplus
GRF Budget	($174.2) pre-transfer deficit	$115.0 pre-transfer surplus	$95.0 pre-transfer surplus	$64.8 pre-transfer surplus

Source: Saskatchewan Provincial Budget-Budget Summary

Producing two budgets in Saskatchewan has proven to be confusing to the public. The confusion is that the public assumes that the GRF Budget includes all of the Government's financial plans for the province. In some cases, publications use the GRF financial information instead of Summary financial information without clear disclosure of such. For example:

[3] Saskatchewan's Summary budget (called *Summary Financial Statement financial tables*) includes three financial statements, three schedules, and explanatory notes. It contains statements of surplus (by agency and overall), accumulated surplus, and change in net debt, and schedules of pension liabilities, tangible capital assets, and debt.

- The C.D. Howe Institute's February 2013 Commentary entitled *Canada's 2012 Fiscal Accountability Rankings*, without disclosing such, grades the financial reporting of Saskatchewan based on the GRF instead of the Summary Financial Statements.[4] The Institute incorrectly assumed Saskatchewan prepared quarterly interim budget reports on a summary basis – it does not. For many years, the Institute has not recognized that the Summary Budget does not provide details on planned revenues or expenses. As a result, the incorrect information was used to determine the "Grades" for Saskatchewan and the trends in budgeted and actual revenues and spending. Furthermore, the Commentary compares the Saskatchewan GRF financial plans and results to Summary plans and results of other jurisdictions.

- The Globe and Mail's February 23, 2013 article entitled *Folio: Canada's financial pulse* compares the GRF's projected 2012-13 Pre-transfer surplus of $8.8 million[5] to the projected Summary deficits of other provinces, see **Figure 3.**[6]

- TD Economics' March 22, 2012 comments on the Saskatchewan Budget states: "Saskatchewan has forecasted a surplus of $47 million (0.1 percent of GDP) for the year ahead. This could turn out to be the only surplus of this year's 2012 provincial budget round. The Province has recorded budgeted surpluses since 1994."[7] TD Economics is another organization that is using the GRF Budget figures and incorrectly assuming that this budget is comparable to other provinces.

Figure 3—Extract from Globe and Mail February 23, 2013 Article.

SASK.

Surplus (for 2012-13)

$8.8-million

Surplus of $95-million initially projected when the budget was announced last year slipped to $8.8-million, according to the province's third-quarter update released Feb. 15.

Return to balance: Now

Province is on track to balance its budget this year, just barely. The Saskatchewan Party government led by Premier Brad Wall blames the lower-than-expected surplus on softening of non-renewable resources prices for oil and potash as well as Crown land sales. That was on top of unexpected costs for disaster relief and teacher pensions and benefits, but was offset by higher-than-forecast income tax revenue as more people continued to move to the province.

The Government also contributes to this confusion through its own communications. For example:

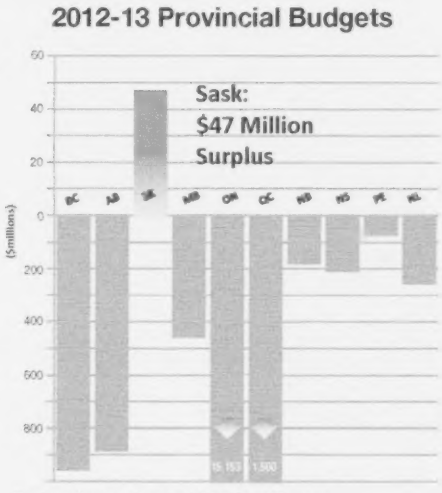
- The March 23, 2011 Finance News Release entitled *The Saskatchewan Advantage: Lower Taxes, Improved Services, Less Debt* states that "Finance Minister Ken Krawetz today tabled a balanced budget that improves government services, reduces the provincial debt and lowers taxes for individuals, families, homeowners, farmers and businesses." In this case, it is unclear as to which 2011-12 budget is balanced - the GRF Budget or the Summary Budget. As **Figure 2** shows, while the Government planned for an annual surplus in its 2011-12 GRF Budget of $382.5 million, it planned for an annual surplus of only $54.3 million in its Summary Budget.

[4] http://www.cdhowe.org/pdf/Commentary_373.pdf.
[5] Based on the 2012-13 Third Quarter Report.
[6] Full article is available at http://www.theglobeandmail.com/news/national/interactive-graphic-charting-canadas-rising-debt-load/article8998950/?from=9002826.
[7] www.td.com/document/pdf/economic/.

- The "2012-13 Provincial Budgets" chart (sourced as being prepared by the Saskatchewan Ministry of Finance) within a Saskatchewan Party publication called *Keeping the Saskatchewan Advantage - A Progress Report from your Saskatchewan Party MLAs* includes an article called *Saskatchewan: Canada's Only Balanced Budget*. This article inappropriately compares Saskatchewan's 2012–13 GRF Budgeted annual surplus of $47 million to the Summary annual deficits of other provinces. (See **Figure 4** for replica of the chart included within the article). Both the chart and related article fail to indicate that the Saskatchewan amount in the chart is the GRF 2012-13 budgeted annual surplus. Also, the chart inappropriately uses a scale that is ten times greater than that used for the other provinces to present Saskatchewan's amount and inadvertently includes the incorrect amount for Quebec's budgetary deficit. The use of the GRF Budget and a different scale results in a misleading comparison. See **Figure 6** for the correct interprovincial comparison of the 2012-13 Summary budgeted annual surpluses (deficits).

- The 2012-13 Budget Address states: "The 2012 budget will spend $11.2 billion dollars-$10,486 dollars for each one of those 1,067,612 people."[8] The $11.2 billion refers to the GRF 2012-13 estimated expenses because the Government's 2012-13 planned expenses are not available in the Summary Budget. In 2011-12, the Government's spending totalled $19.6 billion.[9]

Figure 4—Replica of Chart from *A Progress Report from your Saskatchewan Party MLAs*



Source: Saskatchewan Ministry of Finance

4.1.3 Summary Budget Not Required By Legislation

Unlike most other provinces, Saskatchewan is not required in legislation to prepare a Summary Budget. Legislation in some other provinces also sets the expected form and content of the Summary Budget (see **Figure 5**).

Figure 5—Summary of Budget Information Provided by Most Provinces (Bolded Items Indicate Whether Saskatchewan Provides the Information)

- Seven provinces are required, by legislation, to provide a Summary Budget. **Saskatchewan is not required to do so.**
- Four provinces are required, by legislation, to provide multi-year Summary Budgets. **Saskatchewan is not required to do so and prepares a single year Summary Budget**. Having governments provide plans for more than the upcoming year reduces the risk of mismatch between what a government promises and what is affordable.[10]
- Six provinces use a format similar to that presented in their Summary Financial Statements. **Saskatchewan does not**. For example, British Columbia provides the same level of detail as reflected in its Summary Financial Statements for the upcoming year and two years thereafter.

[8] *Keeping the Saskatchewan Advantage*. (Budget speech – March 21, 2012), p. 1.
[9] $19.6 billion includes $5.9 billion of government business enterprises expenses.
[10] Spackman, p. 4.

- Six provinces have balanced budget legislation requiring a balanced Summary budget.[11] **Saskatchewan does not. Current "balanced budget" legislation is based on the GRF.**
- Five provinces are required, by legislation, to provide budget information that is notably more comprehensive than others (British Columbia, Alberta, Manitoba, Quebec, and Nova Scotia). **Saskatchewan does not.**

Source: See **Appendix 5**

As **Figure 5** shows, the level of detail and number of years that provinces provide in their Summary Budgets varies. However, unlike many other provinces, Saskatchewan's Summary Budget does not provide a multi-year budget or include any detail on estimated revenues and expenses. That means, the 2012-13 estimated expense for the entire Government is not published or available.

Without complete information on planned revenues and expenses, legislators and the public do not receive sufficient information to enable them to understand the nature and extent of the Government's plans for the upcoming year. Also, they are at a disadvantage to effectively scrutinize the Government's revenue raising and spending plans and make meaningful comparisons of actual to planned results.

1. **We recommend that the Government of Saskatchewan provide information on planned revenues and expenses in its Summary Budget using the same accounting policies and format as used for the Summary Financial Statements.**

As well, unlike other provinces Saskatchewan's Summary Budget is included in the back of the *Provincial Budget – Budget Summary* behind a brief discussion of the Government's direction for the upcoming year, technical papers that focus on the economic factors affecting the province, planned activities of the GRF, and the GRF financial tables. See **Recommendation 3** about discontinuing the preparation of the GRF Budget.

4.1.4 Only Summary Budgets Provide Fair Comparison with Other Provinces

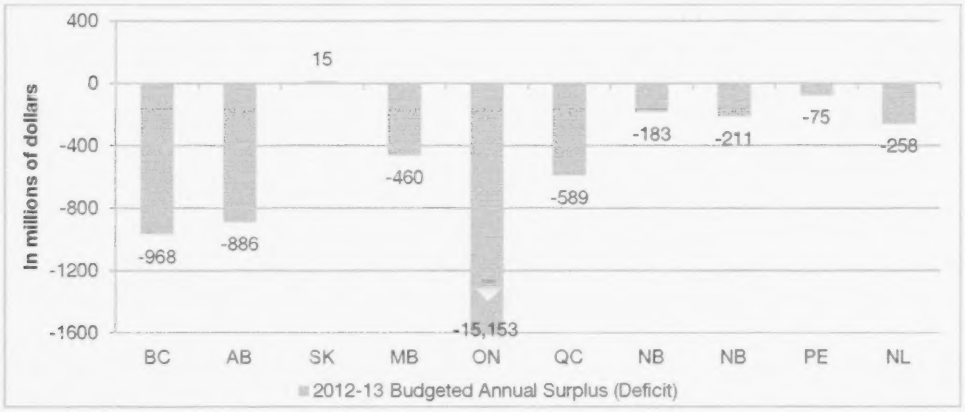
The Summary Budget presents how a government plans to manage provincial finances. The GRF Budget does not include the financial plans of over 270 entities controlled by the Government (agencies).

Public debate that centres on "apples to oranges" comparisons of Saskatchewan's GRF Budget to the Summary Budget of other provinces is troublesome. When comparing Saskatchewan's budget to other provinces, only the Summary Budget provides a true comparison of financial plans.

[11] For some provinces, legislation allow exceptions to balancing the summary budget when certain circumstances exist (e.g., exceptions for natural disasters or specific years). Only legislation in British Columbia and Manitoba outline specific consequences when the budgetary balance is not achieved.

As **Figure 6** shows, in 2012-13, Saskatchewan's Summary Budget planned for an annual surplus of $14.8 million as compared with the planned 2012-13 deficits of other provinces.

Figure 6—Interprovincial Comparison of 2012-13 Summary Budgeted Annual Surplus (Deficit)



Source: 2012-13 Summary Budgets published by each Provincial Government

Summary Budgets are key financial reports that help legislators and the public hold the Government to account. Multi-year budgets (such as four year financial plans) provide legislators and the public with critical information about the financial outlook of the Government. Putting the requirement for a Summary Budget into legislation would help ensure legislators and the public receive the information they need to hold the Government to account.

2. **We recommend that the Government of Saskatchewan seek changes to legislation that would require it to provide the Legislative Assembly with a Summary Budget (i.e., budget reflecting the activities of the entire Government) and consider providing a multi-year Summary Budget.**

Only Saskatchewan is required by law to include the GRF Budget in its provincial Budget. As described in **Section 4.9**, provincial budgets of other provinces include their Summary Budget and Estimates.

3. **We recommend that the Government of Saskatchewan seek changes to legislation that would discontinue the preparation and publication of a budget for the General Revenue Fund. (The preparation and publication of the Estimates would continue.)**

4.2 Balancing the GRF

4.2.1 Requirement for Balancing the GRF Budget

Saskatchewan is the only province where the legislation requires it to provide a "balanced budget" based on the GRF (i.e., a portion of the Government's financial activities). Six provincial governments with "balanced budget" legislation must provide a "balanced Summary Budget" – (see **Appendix 5** for details).

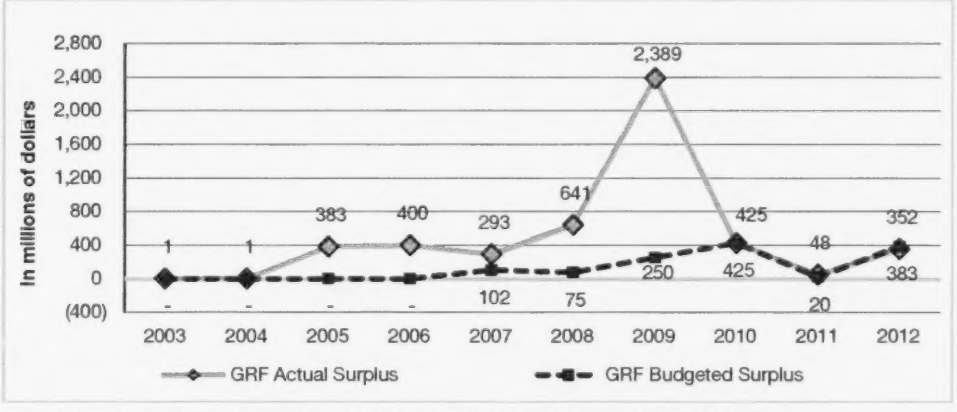
For many years, Saskatchewan governments have publicly communicated that they have balanced the Provincial Budget. As shown in **Figure 7**, Saskatchewan has always balanced the GRF Budget. However, this is not surprising as the budget and results for the GRF are not prepared using GAAP (See **Figure 17**) and there are many ways that the Government can achieve a balanced budget.

As previously mentioned, the Government controls the timing and the amount of transfers between the GRF and its other government agencies. Because it does not use GAAP, it does not record pension liabilities and related expenses which cause volatility in financial results. In addition it includes transfers to/from its "rainy day" fund in the determination of its annual surplus.

Other than for 2009 where the Government recorded exceptionally high resource revenues, the difference between GRF Budgeted and actual surplus have fluctuated from nil to $566 million.

As shown in **Figure 7**, Saskatchewan has reported both budgeted and actual GRF annual surpluses for the last ten years. For 2012-13, Saskatchewan's planned surplus for the GRF is $47 million (year-end forecast of $54.4 million).[12]

Figure 7—Ten-year Comparison of GRF Actual and Budgeted Annual Surplus as Reported–Not Prepared in Accordance with GAAP



Source: General Revenue Fund audited financial statements and Saskatchewan Provincial Budget

Only the Summary Financial Statements show whether the Government has really "balanced" the finances of the Government. However, there is no requirement to balance the Summary Budget in Saskatchewan.

[12] *Saskatchewan Provincial Budget 13-14 Balanced Growth Budget Summary*, p. 76.

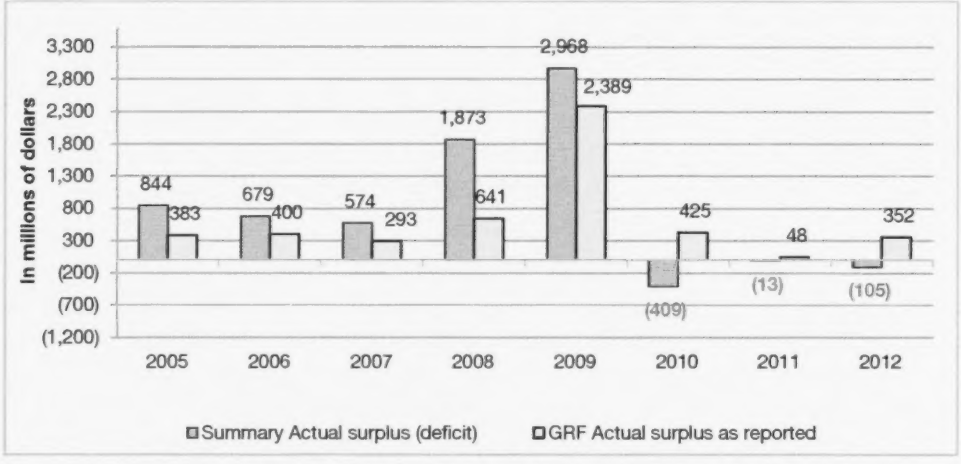
4.2.2 Consequences of Focusing on Balancing the GRF Budget-Managing the Bottom Line

When a government focuses on balancing a budget that is based on only a portion of what it controls and uses non-GAAP accounting, there is a risk that it may make decisions for financial presentation reasons as opposed to economic reasons. As well, legislators and the public may not be aware of the impact of fiscal plans and results for the entire Government and may be misinformed. Some examples follow.

Government's Annual Results

As shown in **Figure 8**, while the financial results of the GRF were reported as balanced in the last eight years, the Government actually incurred deficits in three of the last eight years.[13]

Figure 8—Eight-year Comparison of Summary and GRF Actual Annual Surplus (Deficit) as Reported



Source: General Revenue Fund and Summary Financial Statements audited financial statements. 2005 is the first year the Government prepared a Summary Budget

Government Debt

As discussed in **Section 4.4** and shown in **Figure 14**, while the "General government" gross debt has decreased by $1.9 billion in the last five years, the Government's total gross debt including pension liabilities has increased by $0.4 billion. While the Government estimates "General government" gross debt to decrease by $1.0 billion to $4.9 billion at March 31, 2014, it estimates total gross debt including pension liabilities to increase by $1.7 billion to $19.1 billion at March 31, 2014.[14]

Net Debt

Net debt provides a measure of future revenues required to pay for past transactions and events. Continued annual deficits increase a government's net debt. Net debt highlights the affordability of future government services. A smaller net debt is better.

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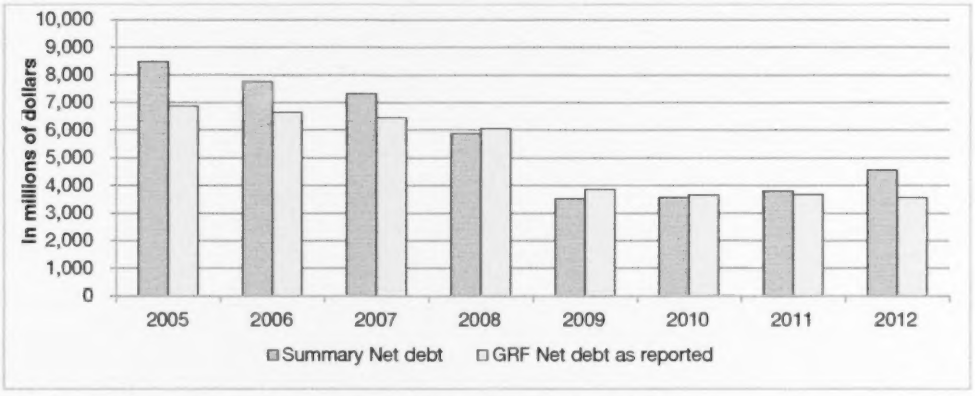
[13] 2009-10, 2010-11, and 2011-12.

[14] *Saskatchewan Provincial Budget 13-14 Balanced Growth Budget Summary*. Determined from pp. 81, 86, and 88.

As indicated in **Figure 9**, while the GRF Net Debt has remained relatively constant over the last four years, Summary Net Debt has increased.

Figure 9—Eight-year Comparison of Summary and GRF Net Debt as Reported



Source: General Revenue Fund and Summary Financial Statements audited financial statements

Net Debt to Gross Domestic Product (GDP)

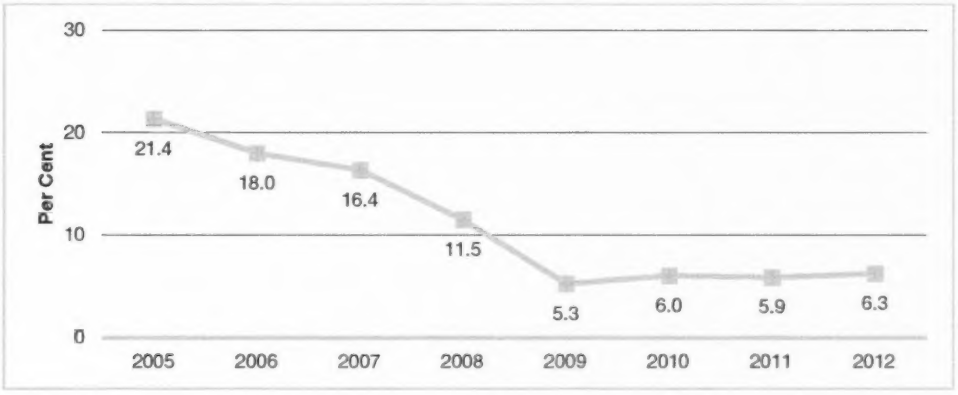
Net debt as a percentage of provincial gross domestic product (GDP[15]) is a key financial indicator used by governments. Comparing a government's net debt to the state of the economy provides insight into the degree to which a government can maintain existing service commitments and meet its existing financial obligations without increasing debt or taxes. A growing economy helps governments to maintain their programs and reduce debt. A lower net debt as a percentage of GDP is better.

This measure is meaningless if calculated using GRF financial results given that the GRF includes only a portion of the Government's financial activities.

Figure 10 shows that from 2005 to 2009, the Government's Summary net debt as a percentage of GDP decreased from 21.4% in 2005 to 5.3% in 2009 and then increased to 6.3% in 2012. The overall eight-year decrease suggests that the Government is better able to afford its debt today than it could eight years ago. However, the slight increase in the last three years shows some reversal of the previous positive downward trend.

[15] Gross Domestic Product is a measure of a province's or country's economy. Increases in GDP means an economy is growing whereas consecutive periods of decreases in GDP is an indication of a recession.

Figure 10—Eight-year Comparison of Summary Net Debt as a Percentage of the Saskatchewan's GDP



Source: *Public Accounts 2011-12 Volume 1*, p. 39, Summary Financial Statements

Use of Crown Profits to Balance the GRF Budget

The GRF balanced budget legislation has put pressure on the Government to manage the GRF annual surplus.

The Government can improve the GRF's financial results by directing certain agencies to provide the GRF with dividends from the profits they earn (i.e., Transfers from Government Entities).

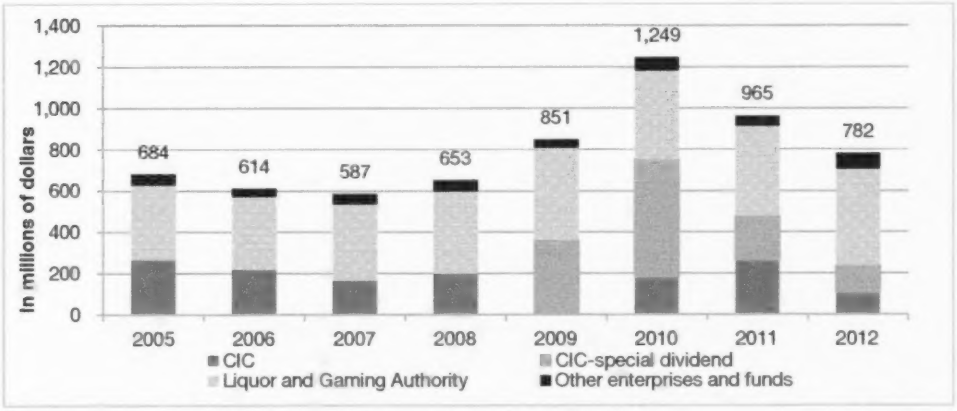
In 2011-12, 7% of GRF revenues of $11.1 billion were from transfers (e.g., Saskatchewan Liquor and Gaming Authority, CIC) or for the recovery of expenses from other provincial agencies. **Figure 11** shows the level of dependency of the GRF on dividends from the Crowns.

As shown in **Figure 11**, over the last eight years, the amount of Transfers from Government Entities has ranged from a low of $614 million in 2005-06 to $1.2 billion in 2009-10. Dividends from CIC contribute to this variance. Typically, the GRF bases dividends from CIC on CIC's projected net profits, and special dividends on one-time events in the CIC sector, such as sale of assets (e.g., the 2009-10 $570 million special dividend included $560 million of proceeds of CIC's sale of Saskferco).[16] Often special dividends are not included in the initial GRF Budget.

In the *2012-13 3rd Quarter Budget Update*, the Government improved its projected GRF annual surplus by asking CIC to provide $120 million more than it initially budgeted. The Government now expects for the year ended March 31, 2013 to receive $804.2 million from Transfers from Crown Entities including $270 million from CIC. The profits of the Crowns are being used to finance the operations of the GRF.

[16] *09-10 Annual Report - Ministry of Finance*, p. 34, *Mid-Year Report 2009-10 Budget Update*, p. 40.

Figure 11—Eight-year Comparison of Actual GRF Transfers from Government Entities by Entity



Source: General Revenue Fund audited financial statements–Revenue schedule

Significant Transfers to Other Agencies

Government decisions on the amount and timing of transfers to its other agencies dramatically impacts the GRF's annual financial results.

Each year, the GRF does significant business with other provincial agencies (e.g., regional health authorities). For example, in 2011-12, 79% of the GRF's expenses of $11.1 billion were for operating and capital transfers (of which 59% or $5.2 billion was provided to other provincial agencies such as regional health authorities). Changing the timing of the GRF transfers to agencies changes the GRF financial results.

As well, reducing GRF transfers to other provincial agencies may result in them needing to borrow money to finance their operations or capital activities. Having agencies borrow on their own as opposed to through the GRF can result in agencies borrowing at higher interest rates, thereby increasing overall interest cost to the Government.

Transfers between the GRF and its various agencies do not affect the financial results of the Summary Budget and Summary Financial Statements. The Summary Budget and Summary Financial Statements eliminate the financial impact of the Government doing business with itself. This is an important reason why other provinces in Canada, following GAAP, publicly report using the Summary Budgets and Summary Financial Statements.

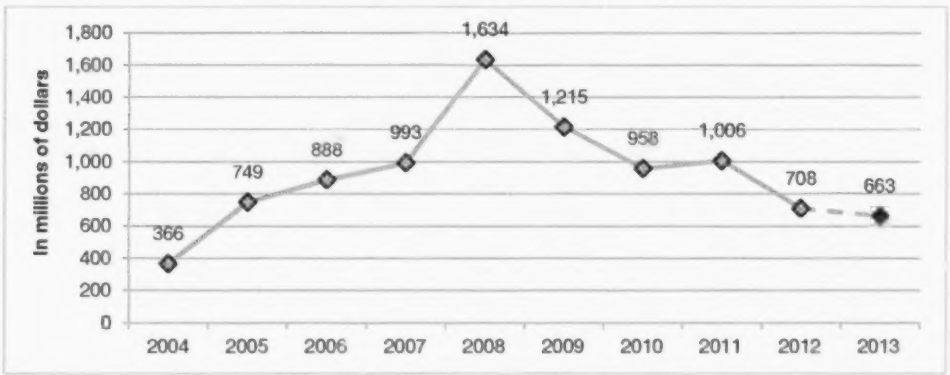
4. **We recommend that if balanced budget legislation is desired, the Government of Saskatchewan seek changes to current legislation to use the Summary Budget as the basis for balanced budgeting.**

4.3 Growth and Financial Security Fund–"Rainy Day" Fund

The Growth and Security Fund Act created the Growth and Financial Security Fund to provide long-term financial security for the Government and to provide a source of funds for promoting economic development. Unfortunately the Fund has been used primarily as a tool to balance the GRF Budget through the use of inappropriate accounting. See **Section 4.8.1 – The GRF Financial Statements Contain Significant Errors.**

The Growth and Security Fund Act requires the Government, through the "rainy day" fund, to "save" in times of GRF surpluses and allows the Government to "spend" in times of GRF deficits. **Figure 12** shows that the Fund's savings peaked at $1.634 billion at March 31, 2008 and decreased to $708 million at March 31, 2012. Per the 2013-14 Provincial Budget, the Government expects the Fund to be $663 million at March 31, 2013.

Figure 12—Ten-year Trend of "Rainy Day" Fund Balances[17]



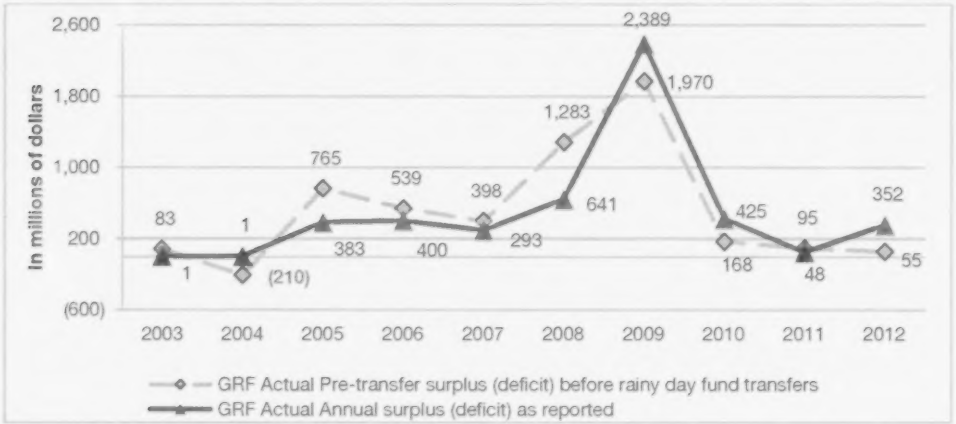
Source: *Public Accounts – Volume 1* and *13-14 Saskatchewan Provincial Budget*

The annual surplus (deficit) prior to making "rainy day" fund transfers is called "Pre-transfer surplus." In six of the last ten years, the Government has budgeted GRF pre-transfer deficits.

As shown in **Figure 13**, the Government has reported actual GRF pre-transfer surpluses in nine of the last ten years. Also, as shown in **Figure 13**, in times of GRF surpluses, other than in 2009, 2010, and 2012, transfers to a "rainy day" fund artificially reduce the reported GRF annual surplus. As well, these transfers lessen the differences between planned and actual GRF results (reduce volatility) to "balance" the GRF Budget.

[17] 2004-2006 reflects the balance in the Fiscal Stabilization Fund; 2007-2008 reflects the combined balances of the Fiscal Stabilization Fund and the Infrastructure Fund; 2009-2012 reflects the balance in the Growth and Financial Security Fund. Prior to 2007, there were no investments held in the Funds.

Figure 13—Ten-year Comparison of GRF Actual Pre-transfer Surplus and Annual Surplus (Deficit) (As Reported in the GRF Financial Statements)



Source: General Revenue Fund audited financial statements

The close matching of the GRF budgets to actual results is possible through the control of transfers.

5. **We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to eliminate the use of "rainy day" funds for balancing budgets in conjunction with its elimination of the budget for the General Revenue Fund.**

4.4 GRF Debt Management Plan

4.4.1 Focus of Debt Management Plan is On Only a Portion of Debt

Because *The Growth and Financial Security Act* requires the Government to annually prepare a four-year debt management plan for the GRF as part of the Provincial Budget documents, the Government prepares a plan that focuses on only a portion of the Government's gross debt. It focuses on "government general debt." For example, in the *Saskatchewan Provincial Budget 12-13* under "Debt Reduction," the Government noted that it planned to keep "General government" debt at $3.8 billion.[18]

"General government" gross debt is only a component of the Government's gross debt. The Government's gross debt includes:

- GBE specific gross debt – bonds and debentures issued by the GRF specifically on behalf of a government business enterprise (GBE)
- General gross debt – bonds and debentures issued by the GRF to fund government spending of ministries and other government agencies. It is further comprised of:

[18] *Keeping the Saskatchewan Advantage*. (Backgrounder– March 21, 2012), p. 1.

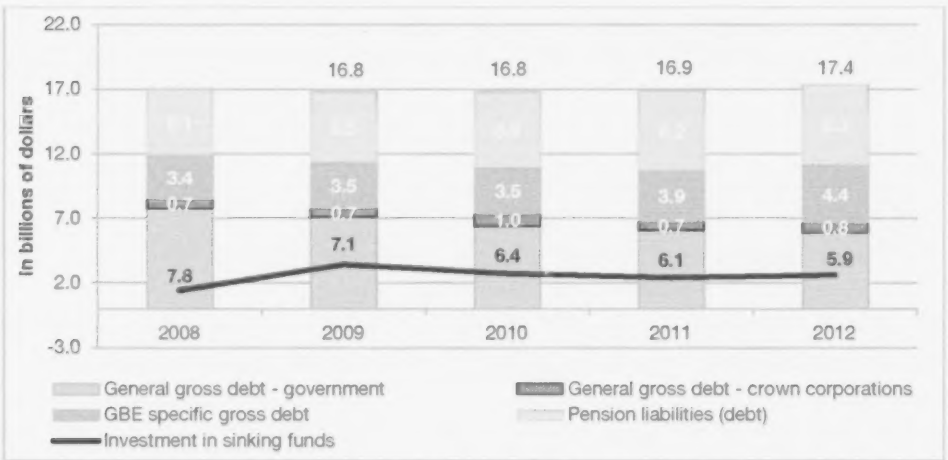
- Crown corporation – debt borrowed on behalf of various agencies
- **Government** – debt borrowed to finance ministry operations

- Pension liabilities (debt) – an actuarial estimate of unpaid pension promises to retirees under government pension plans net of pension plan assets

Figure 14 shows that the Government's gross debt including pension liabilities has increased by $0.4 billion from $17.0 billion at March 31, 2008 to $17.4 billion at March 31, 2012. This is comprised of increases of $1.0 billion in GBE specific gross debt, $0.1 billion in General gross debt-crown corporations and $1.2 billion in pension debt offset by a decrease of $1.9 billion in General gross debt - government.

As previously noted, the Government estimates gross debt including pension liabilities will be $19.1 billion at March 31, 2014. This increase of $1.7 billion since March 31, 2012 is comprised of increases of $1.7 billion in GBE specific gross debt, $0.3 billion in General gross debt-crown corporations, and $0.7 billion in pension debt offset by a decrease of $1.0 billion in General gross debt-government.[19]

Figure 14—Five-year Comparison of Summary Gross Public Debt including Pension Liabilities



Source: *Public Accounts – Volume 1*, Summary Financial Statements (similar breakdown is not available prior to 2008)

Most of the Government's debt cannot be repaid before it matures (i.e., before it becomes due for repayment). A key to the Government's "debt reduction strategy" has been to increase its investments in sinking funds. Sinking funds are money set aside to repay the debt. As shown in **Figure 14**, since 2008, the Government has increased its sinking funds by $1.2 billion from $1.4 billion in 2008 to $2.6 billion in 2012. At March 31, 2012, $0.5 billion of its sinking funds was set aside to repay GBE specific debt and $2.1 billion to repay General debt.

Over the last five years, while debt used to finance the operations of ministries (e.g., Health, Highways, Education) has decreased, debt to finance Crown corporations and pension debt have increased.

[19] *Saskatchewan Provincial Budget 13-14 Balanced Growth Budget Summary*, pp. 81, 86, and 88.

4.4.2 Debt Management Plan does not Consider Significant Pension Debt

From March 31, 2008 to March 31, 2012, pension debt for government pension plans has grown from $5.1 billion to $6.3 billion for an increase of $1.2 billion. It accounts for 36% of the Government gross debt. Two of the Government's largest defined benefit pension plans – the Teachers' Superannuation Plan (TSP) and the Public Service Superannuation Plan (PSSP) – account for 95% of the Government's total pension debt.[20]

Determining whether retirement benefit plans should be funded and the amount to be funded in each period is a financial management matter of public interest. To date, the Government's strategy has been not to fund pension debt.

Periodically, the Government estimates pensions' expected cash flows based on actuarial calculations and assumptions concerning inflation, mortality rates, wage rates, and investment returns (projections). Projections can change significantly. Projected cash flows are expected to peak at about $406 million in 2018 (within the next six years).[21,22] This amount is more than the Government's 2012 spending on economic development. Projecting future cash needs helps governments to plan for and manage their future borrowing and financing requirements.

In future years, under its current funding strategy, the Government will likely need to spend more of its money paying past pension promises. The Government must continue to use projected cash flows of pension payments to assess the impact on the Government's overall cash flow, borrowing needs, and pension funding strategy.

Looking at the trends of a government's debt, including pension debt, and net debt as a percentage of GDP provides insight into how much debt will be left for future generations of citizens to pay or finance. From 2008 to 2012, the growth in the economy as reflected by growth in the provincial GDP and a strong resource sector has helped the Government lower its net debt as a percentage of GDP by 5.2% (see **Figure 10**). This suggests that the Government has a greater ability to meet its existing debt (including pension) commitments today than it did in 2008.

Having a debt management plan for the entire government is important. The financial results in the Summary Financial Statements are already those used by credit raters when they set the provincial credit rating.

The legislative requirement for a debt management plan is focused on the GRF instead of on all of the Government's debt. As such, the Government does not publish a plan that shows how it plans to manage all of its debt.

[20] *Public Accounts 2011-12 - Volume 1*, p. 112.
[21] Total of projected cash flows from PSSP Actuarial Valuation Report at December 31, 2011 with extrapolation to March 31, 2012 (prepared April 25, 2012) and TSP Financial Projections Report at June 30, 2011 (prepared December 2011).
[22] The 2011 cash flow projections for the PSSP and TSP were the most recent data available at August 31, 2012.

6. **We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to publish a debt management plan that includes all of the debt of the Government.**

4.5 Debt Retirement Fund

The Debt Retirement Fund, created under *The Growth and Financial Security Act*, does not hold any cash or investments; rather it is simply the total of a portion of the annual surpluses of the GRF since 2007-08. By simply being an accounting of surpluses, the Debt Retirement Fund serves no purpose. As such, it cannot achieve its purpose of helping eliminate the accumulated deficit of the General Revenue Fund.

7. **We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to eliminate the existence of the Debt Retirement Fund.**

4.6 Interim Budget Update

Saskatchewan is the only province where legislation, since 1995, requires it to prepare an interim Budget Update for the General Revenue Fund. All provinces, other than Prince Edward Island, compare their forecasted results with their Summary Budget. [23] Two provinces also compare actual-to-date Summary results to budgeted Summary results.[24] Saskatchewan does not include actual-to-date results in its Budget Updates.

Saskatchewan's legislation is silent with respect to the preparation and publishing of interim Summary Budget Updates. *The Growth and Financial Security Act* expects the Government to issue an interim GRF Budget Update report to the Legislative Assembly by November 30th of each year. The Act requires the report to contain a revised forecast of GRF revenues and expenses for the fiscal year and set out differences between the revised GRF forecast and the GRF Budget. The Government provides the public with GRF financial updates more often – three times each year in its 1st Quarter, Mid-Year, and 3rd Quarter Financial Update.

While the 1st and 3rd Quarter Budget Updates focus solely on the GRF Budget, only the Mid-Year Budget Update includes updates on both the Summary Budget and the GRF Budget.

Because the Summary Budget provides the financial plan for the entire Government, legislators and the public would be interested in how well the Government is progressing towards achieving it. They would also be interested in any adjustments the Government plans to make to its initial plans. Publishing more periodic financial updates of the

[23] The Government of Prince Edward Island does not prepare Interim Budget Updates.
[24] British Columbia and Alberta include actual-to-date information in their Budget Updates.

Government's progress in achieving the Summary Budget would help keep both the legislators and the public better informed.

8. **We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to eliminate interim reporting on the General Revenue Fund budget and to require quarterly public reporting on the Summary Budget.**

4.7 Requirement for Two Sets of Financial Statements (Financial Results)

While all other provincial governments have a fund similar to the GRF, only Newfoundland and Labrador publish audited financial statements for this fund.[25] Saskatchewan remains the only province to publish the audited GRF financial statements within the same document as the Summary Financial Statements.

The requirement to have two sets of audited financial statements within the *Public Accounts – Volume 1* creates confusion, particularly because the GRF financial statements and related financial analysis are prominently presented first.

Saskatchewan governments have contributed to confusion by using financial information from either or both the GRF and Summary Financial Statements in public debate and communications. The use of two sets of statements has resulted in unclear messages when communicating information about financial results.

Legislators and the public should be able, without hours of effort or detailed financial expertise, to understand the Government's finances.[26] Unfortunately, many Saskatchewan government publications about financial plans or results include information related to the activities of both the GRF and Summary Financial Statements (i.e., Budget Summary, Mid-Year Budget Update, *Public Accounts-Volume 1*). Even though in recent years, the Government has more often identified in its publications whether reported amounts relate to the Summary or the GRF financial results, the existence of multiple bottom lines makes understanding the Government's finances challenging. **Figure 15** illustrates the various annual surpluses (deficits) included in the *Public Accounts – Volume 1*.

Figure 15—Actual Financial Results

Source	March 31, 2010	March 31, 2011	March 31, 2012
	($ in millions)		
Summary Financial Statements	($409.2) annual deficit	($13.3) annual deficit	($104.9) annual deficit
GRF Financial Statements	$424.5 annual surplus	$47.7 annual surplus	$352.3 annual surplus
GRF Financial Statements	$167.7 pre-transfer surplus	$95.3 pre-transfer surplus	$54.7 pre-transfer surplus

Source: *Province of Saskatchewan Public Accounts – Volume 1*

[25] The Government of Newfoundland and Labrador publishes the audited statements of its GRF-equivalent fund in its Public Accounts – Volume 2. The Government of Prince Edward Island publishes unaudited statements of its GRF-equivalent fund in its Public Accounts – Volume 2.

[26] C.D. Howe Institute, p. 3.

The Government's continued use of two sets of financial statements means that legislators and the public often do not know which financial results are being discussed. More importantly, legislators and the public may not have a clear understanding of the state of the Government's finances.

The following examples show how difficult it is to know whether government comments refer to Summary or the GRF financial results.

- The August 3, 2012 news release entitled *Province Remains on Track with Balanced Budget* states that "The First Quarter Financial Report released today by Deputy Premier and Finance Minister Ken Krawetz shows that Saskatchewan remains on track to have the only provincial balanced budget in Canada in 2012-13."

- The February 15, 2013 news release entitled *Saskatchewan Remains on Track for Balanced Budget* states "Saskatchewan has maintained its enviable position through the first three quarters of this fiscal year, remaining the only province in Canada on track for a balanced budget."

The *First* and *Third Quarter Financial Report* linked to these news releases focused only the GRF; they do not provide any forecasts for the Saskatchewan Summary Budget. As such, they do not provide any information as to whether the Summary Budget is on track to be balanced.

Having *Public Accounts – Volume 1* contain only the audited Summary Financial Statements would address this confusion.

9. We recommend that the Government of Saskatchewan seek changes to current legislation to require the auditing and publication of only the Summary Financial Statements for the Government of the Province of Saskatchewan.

4.8 Power to Set Accounting Policies

4.8.1 The GRF Financial Statements Contain Significant Errors

Unlike the Summary Financial Statements, the financial statements of the GRF are not prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). (See **Appendix 2** for audit opinion on the Summary Financial Statements.) Use of GAAP is necessary so that governments account for the cost of their programs and decisions accurately, so that the citizens of a province receive correct financial information.

As set out in **Appendix 3**, the Provincial Auditor's audit opinion on the 2012 GRF financial statements is qualified. "Qualified" audit opinions are not normal and should cause concern for legislators and the public. The audit opinion advises readers about the significant errors in the GRF financial statements. Also, the audit opinion cautions

users not to use the GRF financial statements to understand the financial results of the Government.

For the year ended March 31, 2012, the GRF reported an annual surplus of $352 million. If the GRF financial statements had been prepared correctly in accordance with GAAP, they would have reported a deficit of $46 million. Also, instead of the reported accumulated deficit of $146 million, the GRF had an accumulated deficit of $5.56 billion. **Figure 16** explains the errors in the 2012 GRF financial statements. It sets out, by line item, the affected information from the GRF financial statements, the amount reported, the amount that should have been reported, the difference between these two amounts, and the reason for that difference.

Figure 16—Impact of Errors on the GRF Financial Statements for the Year Ended March 31, 2012

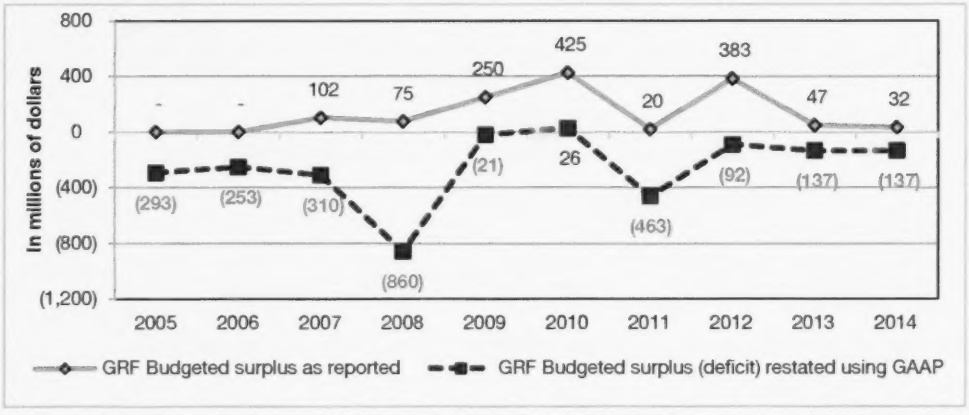
Line Item on Financial Statements	Amount Reported in the Statements	Amount that Should be Reported in the Statements	Difference Amount Reported is: Overstated (too high) Understated (too low)	Reason for Difference
Statement of Financial Position				
Total Financial Assets	$3.00 billion	$3.71 billion	$708 million (understated)	Unrecorded "Due from Growth and Financial Security Fund"
Total Liabilities	$6.56 billion	$12.68 billion	$6.12 billion (understated)	Unrecorded pension and a disability plan debt
Net Debt	$3.56 billion	$ 8.97 billion	$5.41 billion (understated)	Net impact of not recording the above amounts
Accumulated Deficit	$146 million	$5.56 billion	$5.41 billion (understated)	Net impact of not recording the above amounts
Statement of Operations				
Total Expense	$11.07 billion	$11.17 billion	$100 million (understated)	Unrecorded pension and a disability plan costs for current year
Transfer to the Growth and Financial Security Fund	$27 million	$ ---	$27 million (overstated)	Inappropriately including transfer as expense
Transfer from the Growth and Financial Security Fund	$325 million	$ ---	$325 million (overstated)	Inappropriately including transfer as revenue
Annual Surplus (Deficit)	$352 million	($46) million	$398 million (overstated)	Net impact of above errors on current year surplus (deficit)

4.8.2 GRF Financial Budget and Results Not Prepared Using GAAP

As permitted by legislation, the Government does not use GAAP to prepare the GRF financial statements. Because the Act requires the GRF Budget to use the same accounting policies used in the GRF financial statements, the GRF Budget has the same errors as the GRF financial statements.[27] Using non-GAAP policies does not result in the true financial results. The current non-GAAP policies allow the GRF to portray for a more favorable financial outlook than if GAAP were used.

As illustrated in **Figure 17**, if Saskatchewan had used GAAP to prepare the GRF Budgets, it would have reported deficit budgets in nine out of the last ten years instead of "balanced budgets." Only the 2009-10 budget would have been "balanced" with an estimated annual GRF surplus of $26 million.

Figure 17—Ten-year Comparison of GRF Budgeted Annual Surplus as Reported to GRF Budgeted Annual Surplus (Deficit) Restated Using GAAP[28]

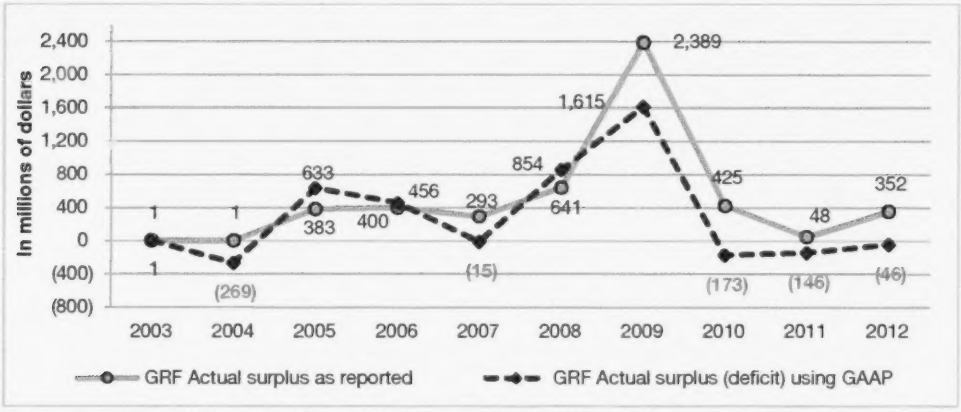


Source: For Budgeted GRF annual surplus (deficit), Budget Summary GRF; for Budgeted GRF annual surplus (deficit) restated using GAAP, Budget Summary GRF adjusted using "adjustment to account for pension costs on an accrual basis" and for transfers to (from) "rainy day" funds

Figure 18 compares the GRF financial results restated using GAAP to those publicly reported in the GRF financial statements. As shown in **Figure 18**, in five out of the last ten years, Saskatchewan governments have reported annual surpluses in the GRF financial statements when they should have reported annual deficits in the GRF financial statements.

[27] *The Growth and Financial Security Act*, Section 7.
[28] The amounts reflected for GRF are adjusted to reflect the amounts that should have been reported if the GRF followed appropriate accounting policies. See **Figure 16** for further detail.

Figure 18—Ten-year Comparison of GRF Actual Annual Surplus (Deficit) as Reported to GRF Actual Restated Using GAAP[29]



Source: General Revenue Fund audited financial statements and related Provincial Auditor's reports

Use of GAAP is necessary so that governments account for the cost of their programs and decisions accurately and publish reliable financial reports. See **Recommendation 10** about requiring the use of GAAP.

4.8.3 Legislation Silent on GAAP for Summary Financial Statements

The selection of accounting standards can significantly impact financial results. *The Financial Administration Act, 1993* does not require accounting in accordance with GAAP. As well, *The Growth and Financial Security Act* requires accounting contrary to GAAP by establishing improper accounting for transfers between the Growth and Financial Security Fund and the GRF.

In Saskatchewan, Treasury Board decides on which accounting policies to use. While Treasury Board has decided to use GAAP in the preparation of the Summary Financial Statements, the Government has not sought legislation to require it to do so. We think it should. This requirement would be consistent with Saskatchewan's legislative requirement that municipalities must use GAAP to prepare their financial statements.[30]

Enshrining in legislation the accounting standards that must be used to prepare the Summary Financial Statements would ensure the Government continues to use GAAP. This would help ensure legislators continue to receive credible Summary Financial Statements.

[29] The amounts reflected for GRF are adjusted to reflect the amounts that should have been reported if the GRF followed appropriate accounting policies (i.e., GAAP).

[30] The requirement for municipalities to provide financial statements prepared in accordance with GAAP is included in Section 185 of *The Municipalities Act*.

10. **We recommend that the Government of Saskatchewan seek changes to *The Financial Administration Act, 1993* to require the use of Canadian public sector standards established by the Canadian Public Sector Accounting Board in the preparation of the Summary Financial Statements.**

4.9 The Estimates

Estimates are spending plans where the Government must seek the approval of the Assembly before it can spend or borrow. All provinces **including Saskatchewan** provide their Estimates as part of their Provincial Budgets.

Legislators are charged with holding governments accountable for their management of public money. Legislators' review of budget information provided by a government each year is a critical part of this process. We found Saskatchewan's practices are generally in line with those of other Canadian provinces.

For certain government activities, legislatures have given governments, through legislation, the authority to operate and spend on an ongoing basis without having to seek prior approval of the Assembly. Because Assemblies have retained the right to debate, criticize, and recommend changes to Estimates, they tend to focus their budget scrutiny on the Estimates. The Assemblies of some provinces more actively use their Summary Budget in their deliberations and debate of their Provincial Budget and Estimates.

The following provides a brief description of the budget scrutiny process typically followed by Canadian provinces.

- Scrutiny processes start when a government delivers the budget speech outlining its key direction and priorities for the upcoming year is delivered to the Assembly.

- Most Assemblies **including Saskatchewan** make a motion to approve the budgetary policy of a government followed by a debate on the motion (often referred to as "budget debate"). Many provinces specify the number of days (normally a maximum) for debate of the budget motion (e.g., **Saskatchewan**'s Assembly debates its overall budget motion for a maximum of five days).

- For all provinces **other than Saskatchewan**, when the budget speech and resulting debate references planned surpluses or deficits or overall spending, the amounts refer to information in their Summary Budget. Legislation in British Columbia prohibits the use of the terms "surplus" or "deficit" when referring to results of its equivalent to the GRF in certain public documents.[31]

- For all provinces, Rules of the Assembly require detailed scrutiny of the Estimates only.

[31] *The Budget Transparency and Accountability Act*. (British Columbia).

- Assemblies typically assign the detailed review of Estimates to one or more of their committees. Three provinces use a Committee of Supply or Committee of the Whole consisting of all Members of the Assembly to review the Estimates.[32] Other provinces **including Saskatchewan** use sub-committees of the Assembly (scrutiny committees) to review all or a portion of the Estimates (e.g., in Saskatchewan, the Standing Committee on Crown and Central Agencies reviews the Estimates related to the Ministry of Finance which is a central agency). Scrutiny committees question ministers, senior officials, and, at times, others (e.g., members of the public).

- With the exception of British Columbia and Prince Edward Island, each province has established either the minimum or maximum amount of time allowed for the Assembly's scrutiny of the Estimates (see **Figure 19**). **Saskatchewan** has set a minimum time allotment. By not setting a maximum time allotment, Saskatchewan has not imposed limits on the extent of debate on the Estimates. This allows for more debate on the Estimates.

Figure 19—Specified Time Requirements for Detailed Review of Estimates

SK	AB	MB	ON	QC	NB	NS	NL
Minimum of 2 hours per ministry with cumulative of at least 75 hours[33]	3 hours per department minimum 2 hours minimum for Executive Council	100 hours maximum	90 hours maximum	200 hours maximum (by Committees) 5 maximum (by whole Assembly)	80 hours maximum	80 hours maximum	75 hours maximum

Source: Rules and Procedures of the Provincial Legislative Assemblies (see Selected References)

- All provinces must vote on the spending included in the Estimates[34] often by specified blocks of funding (commonly referred to as a "vote"). Upon the recommendation of the related committee of the Assembly, Members of the Assembly voice their support for the funding by voting on the related Appropriation or Supply Act. These are "voted" appropriations.

Saskatchewan's inclusion of the GRF Budget in the Provincial Budget results in the Saskatchewan budget debate including debate on the GRF Budget. This differs from other provinces where budgetary debate focuses on the Summary Budget and Estimates. See **Recommendation 3** about discontinuing the preparation of the GRF Budget.

[32] British Columbia, Manitoba, and Prince Edward Island assign review of Estimates to a Committee of Supply or Committee of the Whole.
[33] *Rules and Procedures of the Legislative Assembly of Saskatchewan – December 2011.*
[34] The Legislative Assembly does not vote on "statutory" amounts that may be included within the Estimates as it has previously provided the Government with ongoing spending authority for this spending through legislation.

5.0 Financial Discussion and Analysis

While the Summary Budget outlines the Government's plans for the upcoming year, the Summary Financial Statements provide the actual financial results for a fiscal year. Governments recognize that understanding financial statements is challenging. In response, the Canadian Public Sector Accounting Board (Board) published two statements of recommended practice (i.e., SORP-1 financial statement discussion and analysis and SORP-4 indicators of financial condition) that provide governments with guidance for reporting financial statement discussion and analysis and reporting on the financial condition of governments (FSD&A). The Board encourages governments to include FSD&A along with their audited financial statements.

Since 2007-08, Saskatchewan has included FSD&A about the Summary Financial Statements in *Public Accounts – Volume 1* along with the audited financial statements. In our 2009 Report – Volume 2, we identified significant improvements that the Government had made to its FSD&A. It had included most of the suggested financial condition indicators. We also encouraged the Government to make continued improvements (i.e., include the Summary Financial Statements net debt to GDP indicator, in-depth analysis of trends and financial indicators and longer trends and interprovincial comparisons).

In 2012, to identify whether the Government made further improvements, we compared the FSD&A related to the Summary Financial Statements against SORP-1. We found that no substantive changes had been made to the FSD&A other than the inclusion of the suggested Summary Financial Statements net debt to GDP indicator.

The analysis of differences between the Summary Budget and the Summary Financial Statements remained limited and the assessment of trends in the key information and financial indicators remained brief. Other than credit ratings, the FSD&A did not include interprovincial comparisons.

11. We recommend that the Government of Saskatchewan expand the financial statement discussion and analysis about the Summary Financial Statements included in the Public Accounts – Volume 1 to include more detailed analysis of differences between budget and actual as well as reasons for trends in key financial statement items and indicators.

6.0 Summary of Recommendations

1. We recommend that the Government of Saskatchewan provide information on planned revenues and expenses in its Summary Budget using the same accounting policies and format as used for the Summary Financial Statements.

2. We recommend that the Government of Saskatchewan seek changes to legislation that would require it to provide the Legislative Assembly with a Summary Budget (i.e., budget reflecting the activities of the entire Government) and consider providing a multi-year Summary Budget.

3. We recommend that the Government of Saskatchewan seek changes to legislation that would discontinue the preparation and publication of a budget for the General Revenue Fund. (The preparation and publication of the Estimates would continue.)

4. We recommend that if balanced budget legislation is desired, the Government of Saskatchewan seek changes to current legislation to use the Summary Budget as the basis for balanced budgeting.

5. We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to eliminate the use of "rainy day" funds for balancing budgets in conjunction with its elimination of the budget for the General Revenue Fund.

6. We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to publish a debt management plan that includes all of the debt of the Government.

7. We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to eliminate the existence of the Debt Retirement Fund.

8. We recommend that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to eliminate interim reporting on the General Revenue Fund budget and to require quarterly public reporting on the Summary Budget.

9. We recommend that the Government of Saskatchewan seek changes to current legislation to require the auditing and publication of only the Summary Financial Statements for the Government of the Province of Saskatchewan.

10. We recommend that the Government of Saskatchewan seek changes to *The Financial Administration Act, 1993* to require the use of Canadian public sector standards established by the Canadian Public Sector Accounting Board in the preparation of the Summary Financial Statements.

11. We recommend that the Government of Saskatchewan expand the financial statement discussion and analysis about the Summary Financial Statements included in the *Public Accounts – Volume 1* to include more detailed analysis of differences between budget and actual as well as reasons for trends in key financial statement items and indicators.

7.0 APPENDICES

Appendix 1—Chronology of Events Impacting the Financial Reporting of the Government of Saskatchewan

Year	Key event	Impact
1992	**First audited set of Summary Financial Statements**	**The Government prepared its first set of summary financial statements for the year ending March 31, 1991. It asked the Provincial Auditor to audit its 1992 set of summary financial statements**
1993	*The Financial Administration Act* is repealed *The Financial Administration Act, 1993* comes into effect.	Requires Treasury Board to prescribe form and content of public accounts and Estimates Requires Provincial Comptroller to prepare Summary Financial Statements and GRF financial statements in accordance with accounting policies set by Treasury Board Requires public accounts to include Summary Financial Statements and GRF audited financial statements, summary of trust funds, and other information required under legislation or by Treasury Board Sets deadline for tabling public accounts
1995	*The Balanced Budget Act* comes into effect	Requires a four-year financial plan and debt management plan for the GRF to be presented to the Assembly Requires a "balanced budget" for the GRF over a four year period with permitted exceptions Sets deadline and expected content of interim report for the GRF
2000	*The Fiscal Stabilization Fund Act* comes into effect	Establishes Fiscal Stabilization Fund Gives Treasury Board power to approve transfers between the GRF and the Fund and requires GRF to account for such transfers as revenues or expenses of the GRF Requires four-year plan for transfers between the GRF and the Fund Requires public reporting of Fund in public accounts
2005	**First Summary Budget**	**The Government published its first Summary Budget in conjunction with release of the 2004-05 Provincial Budget**
2006	*The Infrastructure Fund Act* comes into effect	Establishes Infrastructure Fund Gives Treasury Board power to approve transfers between the GRF and the Fund and requires GRF to account for such transfers as revenues or expenses of the GRF Requires public reporting of Fund in public accounts
2008	**First FSD&A in Public Accounts – Volume 1**	**The Government includes financial statement discussion and analysis (FSD&A) for Summary Financial Statements and GRF financial statements in *Public Accounts – Volume 1***
2008	*The Growth and Financial Security Act* comes into effect *The Fiscal Stabilization Fund Act, The Infrastructure Fund Act,* and *The Balanced Budget Act* are repealed	Similar provisions to *Balanced Budget Act* with respect to interim reporting and four-year financial and debt management plans Requires "balanced budget" for the GRF annually Establishes Growth and Financial Security Fund and Debt Retirement Fund Requires formula-based transfers between the GRF and the Funds and requires GRF to account for such transfers as revenues or expenses of the GRF Requires public reporting of Funds in public accounts

Appendix 2—Auditor's Report on 2011-12 Summary Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Government of Saskatchewan, which comprise the summary statement of financial position as at March 31, 2012, and the summary statements of operations, accumulated surplus, change in net debt, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Government of Saskatchewan as at March 31, 2012, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Bonnie Lysyk, MBA, CA
Provincial Auditor
Regina, Saskatchewan
June 14, 2012

Appendix 3—Auditor's Report on 2011-12 General Revenue Fund Financial Statements

Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the General Revenue Fund, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, accumulated deficit, change in net debt, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements are prepared to assist Treasury Board in meeting its reporting requirements included in Section 15 of *The Financial Administration Act, 1993*.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion

The Government through the General Revenue Fund is responsible for the liabilities of several pension plans and a disability benefit plan. Notes 1 and 5 state that the pension liabilities and a disability benefit liability are not recorded in these financial statements. Canadian public sector accounting principles require that the pension and disability benefit liabilities be recorded in the financial statements. Had the pension and disability benefit liabilities been recorded, liabilities and accumulated deficit would increase by $6,124 million (2011 - $6,024 million) as at March 31, 2012 and, for the year, expenses would increase by $100 million (2011 - $241 million), and the surplus would decrease by the same amount.

The Government records transactions between the General Revenue Fund and the Growth and Financial Security Fund (GFSF) as revenue or expense of the General Revenue Fund. The substance of the transactions between the General Revenue Fund and the GFSF is that the amounts the General Revenue Fund owes the GFSF must be repaid by the GFSF to the General Revenue Fund. Canadian public sector accounting principles do not allow the General Revenue Fund to record changes in the amount due to the GFSF as revenue or expense of the General Revenue Fund.

The financial statements show an expense (as a Transfer to the GFSF) of $27 million (2011 - $48 million) and a revenue (as a Transfer from the GFSF) of $325 million (2011 - $0). It is not appropriate to record an expense because the GFSF must return all amounts due to the General Revenue Fund. Likewise, it is not appropriate to record revenue for the amount the GFSF has returned to the General Revenue Fund in the year. Instead of recording an expense or revenue, the financial statements should record an asset equal to the amount it owed or paid to the GFSF. Had the Government properly recorded the transactions, total financial assets would increase by $708 million (2011 - $1,006 million) and accumulated deficit would decrease by the same amount as at March 31, 2012, and surplus for the year would decrease by $298 million (2011- increase by $48 million).

Qualified Opinion

In my opinion, except for the effects of not recording pension and disability benefit liabilities, and the incorrect recording of transactions between the General Revenue Fund and the GFSF, as described in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial position of the General Revenue Fund as at March 31, 2012, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Usefulness of these Financial Statements

These financial statements contain qualifications from Canadian public sector accounting standards and only report transactions and events of the General Revenue Fund, a component of the Summary Financial Statements. Therefore, readers should not use the General Revenue Fund financial statements to understand and assess the Government's overall management of public financial affairs and provincial resources. Rather, they should use the Summary Financial Statements of the Government of Saskatchewan.

The Government is comprised of over 270 different entities other than the General Revenue Fund. The extent of the Government's controlled financial activities outside of this Fund is significant. Consideration of the financial activities of these entities and adjusting for the qualifications to the General Revenue Fund has the following impact: total financial assets increase by $6,105 million (2011 - $7,188 million); total liabilities increase by $7,088 million (2011 - $7,295 million); net debt increases by $983 million (2011 - $107 million); total non-financial assets increase by $3,747 million (2011 - $3,567 million); accumulated deficit decreases by $2,764 million (2011 - $3,460 million); total revenue including net income from government business enterprises increases by $2,161 million (2011 - $2,237 million); total expense increases by $2,618 million (2011 - $2,298 million); and the annual surplus decreases by $457 million (2011 - $61 million).

Only the Summary Financial Statements report the full nature and extent of the overall financial affairs and resources of the Government of the Province of Saskatchewan.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 1 of the financial statements which describes the basis of accounting and the exceptions approved by Treasury Board to Canadian public sector accounting standards. The primary purpose of the General Revenue Fund financial statements is to report the performance of the Fund against the Estimates. As a result, the financial statements may not be suitable for another purpose.

Bonnie Lysyk, MBA, CA
Provincial Auditor
Regina, Saskatchewan
June 14, 2012

Appendix 4—Summary of Budget Information Provided by All Provinces

All provinces

- Provide context to their financial plans through a budget speech or budget address (outlining a government's key priorities in the accompanying budget), and include economic forecasts and assumptions underlying these forecasts in the budget information. Stating key priorities, economic forecasts and assumptions helps legislators interpret and assess the budget.
- Provide a Summary Budget based on their government reporting entity and generally using the same accounting policies as those used to prepare their summary financial statements. Two provinces allow certain exceptions (i.e., Alberta[35] and Prince Edward Island[36]). Use of the same accounting policies to prepare both the budget and the financial statements allows meaningful comparisons of planned and actual results.
- Provide Estimates (i.e., spending plans where a government must obtain the approval of its Legislative Assembly before it can spend). Few specific legal requirements regarding the content of the Estimates exist.

[35] Section 5(1)(e) of *The Government Accountability Act* (Alberta) allows Alberta to exclude budget detail for certain organizations (i.e., schools, hospitals, and universities) and the annual impact of the change in its pension liabilities from its summary budget.
[36] Consistent with summary financial statements except that certain results are presented on a net revenue basis.

Appendix 5—Nature of Budget Information Provided to Assemblies through Legislation (shaded cell) and in Practice (unshaded cell)[1]

Nature of Budget Information Provided to Assemblies	SK	BC	AB	MB	ON	QC	NB	NS	PE	NL
Key Contextual information										
Budget Speech	√	√	√	√	√	√	√	√	√	√
Economic forecasts and assumptions	√	√	√	√	√	√	√	√	√	√
Government strategic / business plan (or equivalent)	X	√ (strategic plan)	√ (government strategic plan)	√ (fiscal management strategy)	X	X	X	√ (government business plan)	X	X
Summary Budget										
Summary Budget prepared using same accounting policies as its Summary Financial Statements	√	√ (multi-year)	√ except[2] (multi-year)	√	√ (multi-year)	√	√	√ (multi-year)	√ except[3]	√
Summary Budget details of estimated revenues and expenses in a similar format to that presented in its Summary Financial Statements	X	√	X	√	√	√	√	X	X	√
Typically provided prior to April 1	√	√	√	X	√	√	√	X	X	X
Other Planning and Budgetary Information										
Estimates (main and further/ supplementary)	√	√	√	√	√	√	√	√	√	√
Ministry plans	√	√	√	√	√	√	X	√	X	√[4]
Crown agency plans	X[5]	√	√	X	X	√	X	√	X	√[4]
"Balanced" GRF Budget	√[7]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
"Balanced" Summary Budget Legislated Requirements										
"Balanced" Summary Budget prepared using same accounting policies as its Summary Financial Statements	X	√	√ (other than exclusion of change in pension liabilities & "cushion")	√[6]	√	√[7]	√[6,7]	X	X	X
Exceptions provided for specific circumstances where Gov't does not need to "balance" the Summary Budget	X	√	√	√	√ general exceptions only	√	√ general exceptions only	X	X	X
Specific consequences[8] if not "balanced"	X	√	X	√	X	X	X	X	X	X

Source: Related provincial budget legislation (see Selected References)
Key: √ - information provided to Assembly; √ (shaded) – information required by legislation; X – not provided
N/A – not applicable.

[1] Abbreviations used: SK – Saskatchewan, BC – British Columbia, AB – Alberta, MB – Manitoba, ON – Ontario, QC – Quebec, NB – New Brunswick, NS – Nova Scotia, PE – Prince Edward Island, NL – Newfoundland & Labrador, GRF – general revenue fund.
[2] Consistent with summary financial statements except that the SUCH sector (schools, universities, colleges, hospitals), "Alberta Innovates" corporations, and changes in pension liabilities are not included.
[3] Consistent with summary financial statements except that certain results presented on a net revenue basis.
[4] Plans are required every three years.
[5] Saskatchewan tables Performance Plans for two agencies other than ministries: Saskatchewan Liquor and Gaming Authority and Saskatchewan Watershed Authority.
[6] Legislation requires the government to balance its summary budget over a four-year period.
[7] Excluding accounting policy changes (e.g., those required to be applied retroactively under Canadian public sector accounting standards) and for Quebec, deposits in a debt retirement fund.
[8] Specific consequences are those other than the requirement to achieve offsetting surpluses in future years (e.g., reduction in Minister salary).

8.0 GLOSSARY

Accumulated deficit – the sum of the net debt of the government and its non-financial assets or conversely, the amount by which expense has exceeded revenue from the inception of the agency plus any required accounting adjustments. This amount reveals important information about an entity's financial position.

Annual surplus (deficit) – the amount by which total revenue for the reporting period exceeds total expenses for the reporting period or conversely, total expenses for the reporting period exceed total revenues for the reporting period.

Appropriation – sums of money set aside by a Legislature for a specific purpose. Authorization for a government to spend these funds occurs upon the passing of an Appropriation or Supply Act.

Balanced budget – a financial plan whereby planned total expenses for the fiscal year period(s) are equal or less than the planned total revenue for the same fiscal period(s).

Constant dollars – removes the effect of inflation to show the expected future cash flows in today's dollars.

Closed plan – a pension plan that does not allow new members to join; existing members continue to receive the promised pension benefits.

Defined benefit pension plan – a pension plan that specifies the amount of pension that members of the plan receive on retirement or the method of determining the pension.

Defined contribution plan – a pension plan in which the contributions are fixed. The member's pension is based on the accumulated contributions (i.e., total contributions made by the employee and employer over the member's career) and the investment earnings on these contributions.

Estimates – a government's spending plans for which it must obtain the approval of the Legislative Assembly before it can spend. In Saskatchewan, these reflect the planned spending of the General Revenue Fund.

Financial asset – an asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations.

Financial liability – any liability that is a contractual obligation to deliver a financial asset to another party, or to exchange financial instruments with another party under conditions that are potentially unfavourable to the entity.

General debt – public debt net of loans to Crown corporations for government business enterprise specific debt.

General Revenue Fund – a special purpose fund or accounting entity in which all public money is deposited or disbursed unless otherwise authorized through legislation. This normally includes all revenues raised by the Government (i.e., primarily revenues from taxes, non-renewable resources, and transfers from the Federal Government) except those directed elsewhere in legislation. It includes planned spending for all Ministries plus the Assembly and its Officers. Also referred to in certain provinces as a Consolidated Revenue Fund or Core Government.

Government business enterprise – a self-sufficient government organization that has the financial and operating authority to sell goods and services to individuals and organizations outside the government reporting entity as its principal activity. Government business enterprises are recorded in the Summary Financial Statements using the modified equity method.

Government business enterprise specific debt – debt issued by the General Revenue Fund specifically on behalf of a government business enterprise where the Government expects to realize the receivable from the government business enterprise and settle the external debt simultaneously.

Gross debt – the sum of borrowing through the issuance of debt instruments (e.g., bonds and debentures) and pension debt.

Net debt – a measure of a government's financial position that is calculated as the difference between financial assets and liabilities. Net debt provides a measure of the future revenues required to pay for past transactions and events.

Nominal dollars – the value of the actual cash flows that are expected in the future, taking into account factors such as inflation.

Pension debt – the amount by which the pension obligation (promise) exceeds the assets of the pension plan. This amount is called "pension liabilities" in Saskatchewan's Summary Financial Statements - Summary Statement of Financial Position.

Provincial Budget – a provincial government's annual financial plan which typically consists of the following separate documents: Budget Speech, Summary Budget, and Estimates.

Public Accounts - a government's key accountability document that presents a government's financial results for a fiscal year along with other supplementary information.

Sinking funds – money set aside (typically in investments) for the repayment of debt.

Statutory – spending authorized via legislation other than Appropriation or Supply Acts.

Summary Budget – a government's financial plan that includes results of all of the entities a government controls.

Summary Financial Statements – a report of the financial results of all organizations that a government uses to provide goods and services to the public. Summary Financial Statements combine the financial activity of all government organizations including ministries, Crown corporations, agencies, boards, and commissions, etc. Some Provinces refer to their Summary Financial Statements as Consolidated Financial Statements.

The Appropriation Act – is the legal authorization to spend money from the General Revenue Fund for the purposes and time period identified in the Act and Estimates.

Total debt – the aggregate of gross general debt, gross government business enterprise specific debt and pension debt less investments in sinking funds.

Transfer – a transfer of money from a government to an individual, an organization or another government for which the government making the transfer does not: receive any goods or services directly in return, as would occur in a purchase/sale transaction; expect to be repaid in the future,

as would be expected in a loan; or expect a financial return, as would be expected in an investment. Major types of transfers include entitlements, transfers under shared cost agreements and grants.

Vote – a block of government funding provided by statute or included in an Appropriation or Supply Act.

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